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C O N F I D E N T I A L SECTION 01 OF 03 ISLAMABAD 000383

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SUBJECT: PARASTATAL TRADING COMPANY INCREASINGLY INVOLVED
IN PRIVATE MARKET TRADING

Classified By: Classified By: Anne W. Patterson for reasons 1.4 (b), (d)
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¶1. (C) Summary. The Trading Corporation of Pakistan (TCP), a state trading company under the Ministry of Commerce, is engaging in another purchase venture that could prove devastating to private market trading. It is planning to import 200,000 metric tons (MT) of refined sugar for approximately \$100 million. This tender is an example of a growing trend of increased TCP involvement in commercial markets with often unfortunate results. The TCP has also increased its involvement in the sugar, rice, urea, and wheat markets to the detriment and dismay of private businesses. Although its historic role has been to smooth out price differentials in agricultural commodities by buying stocks when there are shortages, the recent escalation in TCP activity is a worrying development as it represents increased government intervention in free markets. The Ministry of Commerce has confirmed it is investigating alleged malfeasance in recent TCP activity. End Summary.

SUGAR TENDER

¶2. (SBU) On February 3, the Economic Coordination Committee (ECC), a Cabinet-level committee chaired by Prime Minister Gilani that makes economic decisions, directed the Trading Corporation of Pakistan (TCP) to issue a tender to import 200,000 MT of refined sugar at a cost of approximately \$100 million. The TCP, a parastatal under the control of the Ministry of Commerce, is mandated to negotiate the import and export of agricultural commodities to stabilize market prices. For example, if the price of a commodity rises too high, the TCP will import more of that commodity to increase the supply and, thereby, lower the price of said commodity.

¶3. (SBU) Faced with a shortfall in the 2009 sugar cane crop, sugar cane crushers asked the GOP to reduce the import duty on raw sugar in November 2008. However, the TCP ignored their request and no sugar was imported. As a result, supplies have tightened and domestic prices have shot up, thus hurting domestic sugar consumers. To respond to the now-immediate need, the TCP will be importing refined rather than raw sugar, depriving the domestic sugar crushing

industry of a sizable amount of revenue and using scarce GOP foreign exchange to purchase the more expensive refined product. The Pakistan Sugar Mills Association (PMSA), which represents sugar cane crushers and refiners, has repeatedly requested the elimination of the 15 percent import duty on raw sugar and a ban on refined sugar imports and has subsequently been hurt by the GOP's decision to import refined sugar.

14. (SBU) In a discussion with EconOff, TCP Director Syed Sibte Momin defensively noted that his organization was only implementing an ECC directive. Furthermore, he attributed Pakistan's sugar shortage to smuggling to Afghanistan. Director Momin further asserted that the sugar industry was supportive of the TCP intervention and that he had received no negative feedback on the decision.

PRIVATE INDUSTRY FEEDBACK

15. (C) In contrast to Director Momin's comments, various private industry sources have reacted negatively to the recent TCP involvement. Tariq Dada, the local representative of Archer Daniels Midland, a large U.S. agribusiness, characterized TCP's move as "unwelcome" and worried that the TCP will dump the sugar on the local market at subsidized rates. He told EconOff that the GOP should have "purchased raw sugar several months ago," and blamed the powerful sugar growers' lobby in Punjab for influencing the GOP's decision.

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Dada commented that this move will also negatively affect the country's molasses and ethanol production.

16. (C) Maqsood Ismail (protect), Managing Director of Candyland, Pakistan's largest candy company and a huge consumer of sugar, said the TCP had "mishandled" the sugar situation and that the current problems in the sugar market were actually created by the TCP. He complained that the TCP is supposed to stabilize market prices for agricultural commodities, not cause shortages. He commented that the beneficiaries of the increased sugar prices are "the same people currently in power in the GOP."

NOT JUST SUGAR

17. (C) This sugar tender is only the most recent example of TCP involvement in commercial markets at the expense of the free market practices in Pakistan. In recent months the TCP has also largely usurped private sector participation in the \$800 million wheat import market, most of which was purchased from Black Sea sources. The GOP has now banned the private sector from importing wheat. Rumors of kickbacks in this trade persist, although Post cannot confirm them.

18. (SBU) The rice market has also been the victim of recent TCP intervention. In 2008, rice exports surged, making Pakistan the world's third largest exporter of rice and the trade largely free of GOP involvement. In response to the bumper crop and the softening of international prices in 2009, however, the TCP has begun issuing tenders for the purchase of up to 500,000 MT of domestic rice, ostensibly to support local prices. The private market participants view the situation differently, claiming that the TCP's intervention in the market is an attempt to cash in on export revenues, which totaled \$2 billion last year. The private market participants claim that the TCP is purchasing domestic rice at above-market prices, which is increasing the average price domestic traders must pay to buy local rice for export, thereby rendering Pakistani rice more expensive and thus less competitive in international markets. Furthermore, there is a real concern that the TCP, if unable to sell this expensive rice profitably abroad, will simply dump the rice later in

the season at below market prices, flooding the market and further undermine the private sector as it did in the urea market.

¶9. (SBU) Pakistan has typically been self-sufficient in urea production and its domestic prices are generally lower than world market prices. Last fall, in an unprecedented move, the GOP authorized the TCP to import 750,000 MT of urea to offset an anticipated shortfall in domestic production. The most the GOP has ever imported in the past has been 50,000 MT. To date, the TCP has purchased 600,000 MT of urea at an estimated cost of \$1.8 billion. The private sector has been critical of the GOP's intervention in the fertilizer market as the imported urea was subsequently sold at a highly subsidized rate. Not only has this clumsy intervention undercut local urea manufacturers, but the timing of these purchases has not coincided with critical fertilizer application periods, causing many to question why the TCP got involved in the first place. Again, rather than let free market forces adjust to the estimated shortfall, the government intervened clumsily and mismanaged the trade of urea.

¶10. (SBU) TCP has reportedly attempted to expand into the cotton market, attempts that have reportedly been thwarted by the All Pakistan Textile Mills Association (APTMA), a powerful textile lobby whose membership includes well-placed government officials.

TCP CHAIRMAN

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¶11. (C) Past TCP chairmen have had strong backgrounds in financial and trade matters as well as administrative experience. Newly appointed Chairman Muhammad Saeed, however, appears to lack relevant experience. He, along with the Director Finance and Director Commercial, come from the same income tax division in the Ministry of Commerce. The general perception is that all three appointments were made due to strong PPP connections, rather than because of any expertise in trade.

INVESTIGATIONS

¶12. (C) The Pakistani press reports that the Ministry of Commerce is investigating the alleged embezzlement of \$3.2 million from a recent TCP rice tender. There are further allegations that the GOP has accused the TCP of violating federal procurement rules in a November 2008 wheat import tender. Commerce Joint Secretary Azkhar Ali Choudry confirmed to EconOff that his ministry has been charged with investigating the TCP's recent tenders. Post will report the results of any investigations.

¶13. (C) Comment. Recent forays by the TCP into agricultural commodity market have proven inept and costly. Whether these intrusions are deliberate attempts to manipulate markets to the advantage of some or simple incompetence, this encroachment is hindering the private market and damaging the agricultural sector. End Comment.
PATTERSON